Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, DC 20554

In the Matter of	)	
	)	
	)	
Comprehensive Review of the Accounting Requirements and ARMIS Reporting Requirements for Incumbent Local Exchange Carriers: Phase 1	)	**CC Docket No. 99-253**
	)	

MCI WORLDCOM COMMENTS

Pursuant to the Notice of Proposed Rulemaking (Notice) in the above-captioned docket, MCI WorldCom Inc. (MCI WorldCom) hereby submits its comments on the Commission's Phase 1 accounting streamlining proposals. In the Notice, the Commission asks for comment on proposals to streamline its accounting rules and to eliminate several tables from the ARMIS 43-02 report.

I. The Commission Should Not Eliminate the Expense Matrix

As the Commission discusses in the Notice, the expense matrix has been used, and continues to be used, for a wide variety of regulatory purposes. Most importantly, the expense matrix data is essential to the total factor productivity (TFP) studies that the Commission uses to set the X-Factor. The Commission has used the expense matrix data reported in the ILECs' ARMIS 43-02 reports to derive the labor price index component of the price cap formula.[1]

The Commission should not adopt its proposal to eliminate the expense matrix. Elimination of the expense matrix would undermine the Commission's established policy that the "calculation of the productivity offset should be . . . based on accessible and verifiable data."[2] Without a requirement that the ILECs report expense matrix data, the Commission and interested parties would have no way to monitor changes in ILEC productivity growth or to contribute productivity studies to the Commission's regular reviews of the productivity factor.

The proposal in the Notice -- that the ILECs could be required to provide expense matrix data on an as-needed basis -- is plainly inadequate. First, the Commission and interested parties could not monitor changes in ILEC productivity growth during the periods between formal Commission reviews of the X-factor. Given the central role that measurements of ILEC productivity growth play in the Commission's regulation of ILEC rates, the Commission should not deprive itself of the tools it needs to monitor ILEC productivity growth on an ongoing basis.

Moreover, the need for special data requests to obtain necessary data would add to the Commission's administrative burdens and would be contrary to the Commission's established policy of requiring that the data used in TFP studies be available in a

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[1]Price Cap Performance Review for Local Exchange Carriers, Fourth Report and Order, CC Docket No. 94-1, released May 21, 1997, Appendix D, p. D-5.

[2]In the Matter of Price Cap Performance Review for Local Exchange Carriers, Fourth Further Notice of Proposed Rulemaking, 10 FCC Rcd 13659, 13662 ¶16 (1995).

"timely" manner. As the Commission has discussed, "[i]f an X-factor method depends in part on data that are not publicly available in a timely fashion, . . . then adoption of that method would increase rather than decrease administrative burdens."[3] Similarly, the Commission has noted that one objective of the Uniform System of Accounts is to facilitate "recurrent regulatory decisionmaking without undue delay or reliance on *ad hoc* information requests and special studies."[4] Last fall, the Commission was able to request that interested parties file updated productivity studies with the Commission on only three weeks' notice.[5] Such a short comment cycle would not have been possible if it had been necessary for the Commission to request data from the ILECs before initiating a review of the X-factor.

The elimination of the expense matrix cannot be justified by claims that expense matrix reporting imposes a "burden" on the ILECs.[6] Given that the ILECs' total ARMIS reporting costs are minuscule,[7] the ILECs' cost of reporting a few columns of expense

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[3]Id., ¶17.

[4]1998 Biennial Regulatory Review -- Review of ARMIS Reporting Requirements, Report and Order, CC Docket No. 98-117, released June 30, 1999, at ¶22 (ARMIS Biennial Review Order).

[5]Commission Asks Parties to Update and Refresh Record for Access Charge Reform and Seeks Comment on Proposals for Access Charge Reform Pricing Flexibility, Public Notice, 13 FCC Rcd 21522 (1998).

[6]As the Commission appears to acknowledge at ¶8 of the Notice, the Notice proposal's primary effect would be to eliminate the reporting requirement; the ILECs would have to continue maintaining expense matrix data in order to respond to Commission data requests.

[7]In their comments in CC Docket No. 98-117, the ILECs reported ARMIS filing costs of approximately $1 million per year (Bell Atlantic Comments at 5; Ameritech

data in the ARMIS 43-02 report must approximate zero, particularly since the reporting processes and report format are well established. The extremely limited ILEC cost savings that would result from adoption of the Commission's proposal cannot outweigh the burdens that elimination of expense matrix reporting would impose on the ability of the Commission and interested parties' to analyze changes in ILEC productivity growth.

II. The Commission Should Not Amend its Cost Allocation Rules in Phase I

The Notice provides little justification for the Commission's proposal to relax the CAM audit requirements, other than to suggest that "a less stringent audit requirement for the large ILECs will provide the necessary assurance that the carriers' cost allocations are consistent with our rules . . . ."[8] This tentative conclusion is, however, at odds with the Commission's earlier decision to require a positive opinion because "these standards' requirements for the additional examination of source data and for the testing of allocation procedures and reported results are necessary to satisfy fully the Commission's cost allocation requirements."[9] Moreover, the Commission's proposal to adopt less-stringent audit requirements for the large ILECs similar to those that it

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Comments at 4), or less than 0.01 percent of revenues.

[8]Notice at ¶12.

[9]Computer III Remand Proceedings: Bell Operating Company Safeguards; and Tier 1 Local Exchange Company Safeguards, Notice of Proposed Rulemaking and Order, 6 FCC Rcd 174, 178-179 (1990).

recently adopted for the mid-sized ILECs is at odds with its recent observation that:

> "The largest ILECs conduct a much greater transactional volume of nonregulated services than small and mid-sized carriers. This situation creates additional opportunities to shift costs from nonregulated services to regulated services, resulting in subsidization of nonregulated services with the revenues earned from the provision of regulated services and a greater risk of harm to consumers and competitors from such cross-subsidization."[10]

Given this recent finding, there is no reasoned basis for the Commission to relax the CAM audit requirements for the largest ILECs.

Similarly, there is no reasoned basis for the Commission to adopt its proposal to eliminate the 15-day notice period for CAM changes. Not only did the Commission observe in the ARMIS Biennial Review Order that ILEC cost-shifting continues to pose a substantial risk of harm to consumers, but the Commission recently concluded that the original purpose of the CAM notice requirement remains valid "[d]espite recent and expected changes in the industry due to increased competition. . . ."[11] The fact that the CAM notice requirement remains valid is demonstrated by the fact that the Commission continues to find it necessary to stay ILEC CAM changes prior to their effective date. In the last year, for example, the Commission suspended changes to both Southwestern Bell Telephone and U S West's CAMs.[12]

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[10]ARMIS Biennial Review Order at ¶28.

[11]Implementation of the Telecommunications Act of 1996; Reform of Filing Requirements and Carrier Classifications, Report and Order, 12 FCC Rcd 8071, 8087 (1997).

[12]Revisions to U S West, Inc.'s Cost Allocation Manual, Order, 13 FCC Rcd 21871 (1998); Southwestern Bell Telephone Company's Permanent Cost Allocation Manual for the Separation of Regulated and Nonregulated Costs, Order, 14 FCC Rcd 6338 (1999).

III. Conclusion

For the reasons stated herein, the Commission should not eliminate the expense matrix or adopt the proposed changes to its cost allocation rules.

Respectfully submitted,
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August 23, 1999

STATEMENT OF VERIFICATION

I have read the foregoing, and to the best of my knowledge, information, and belief there is good ground to support it, and that it is not interposed for delay. I verify under penalty of perjury that the foregoing is true and correct. Executed on August 23, 1999.

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CERTIFICATE OF SERVICE

I, Vivian I. Lee, do hereby certify that copies of the foregoing Comments were sent via first class mail, postage paid, to the following on this 23rd day of August, 1999.

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Vivian I. Lee
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